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International economic and social classifications

Report of the Secretary-General

Summary

The present report was prepared at the request of the Statistical Commission at its thirty-seventh session.[a] The report outlines an implementation programme for the International Standard Industrial Classification of All Economic Activities and the Central Product Classification, as requested by the Commission.

Points for discussion by the Commission are contained in paragraph 41.

[a] See *Official Records of the Economic and Social Council, 2006, Supplement No. 4* (E/2006/24), chap. I, sect. B.

* E/CN.3/2007/1.

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Contents

		Paragraphs	Page
I.	Recommendations on international classifications made by the Statistical Commission at its thirty-seventh session	1–4	3
II.	Implementation of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification	5–41	3
	A. Introduction	5–7	3
	B. Overall objective of implementation	8–10	4
	C. Components of work	11–24	4
	1. Development of national classifications	12–14	4
	2. Application of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in the national context	15–24	5
	(a) Updating of business registers	16–18	5
	(b) Use of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in economic census and economic surveys	19–21	6
	(c) Use of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in national accounts	22	6
	(d) Use of the International Standard Industrial Classification of All Economic Activities in population census and household surveys	23	6
	(e) Use of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in administrative and legal processes	24	7
	D. Recommended timetable	25	7
	E. Supporting documentation and tools	26–30	7
	F. Institutional arrangements	31–36	8
	G. Resource requirements	37–38	8
	H. Monitoring	39–40	9
	I. Points for discussion	41	9

I. Recommendations on international classifications made by the Statistical Commission at its thirty-seventh session

1. At its thirty-seventh session, held from 7 to 10 March 2006, the Statistical Commission:[1]

(a) Requested further elaboration on the plan for implementing the International Standard Industrial Classification of All Economic Activities (ISIC) and the Central Product Classification (CPC) and its resource implication, and requested also that the United Nations Statistics Division formulate a plan of work for presentation to the Commission at its thirty-eighth session;

(b) Noted the explanation of the processes required by the International Labour Organization (ILO) for approval of the International Standard Classification of Occupations (ISCO), which was planned for completion in 2008, reaffirmed its confidence in those processes, as implied in its decisions at its thirty-fourth, thirty-fifth and thirty-sixth sessions, welcomed the reassurance that, prior to its finalization, the new version of ISCO, would be brought back to the Commission for consultation and advice, and noted also that that had been the essence of its recommendations made at its thirtieth session, held in 1999, by which it had instructed the Expert Group on International Economic and Social Classifications to review all statistical classifications for their adherence to best practice in classifications development prior to presenting them to the Commission, and agreed that ILO should work collaboratively with the Expert Group, while respecting each other's mandates, to ensure the soundness of the new version of ISCO.

2. The implementation of ISIC and CPC is being addressed in the present report.

3. The revision of ISCO is being addressed in a separate report by ILO (see E/CN.3/2007/11).

4. Additional activities regarding ongoing work to improve or revise classifications, such as for the International Standard Classification of Education (ISCED), the Standard International Trade Classification (SITC) or the Extended Balance of Payments Services Classification (EBOPS), are described in a separate background document that will be available to the Commission.

II. Implementation of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification

A. Introduction

5. At its thirty-seventh session, the Statistical Commission requested a more detailed plan for the implementation of the newly revised activity and product classifications, the ISIC, Revision 4, and the CPC, Version 2. The following describes the different components of the implementation process, timetables and resource requirements.

[1] See *Official Records of the Economic and Social Council, 2006, Supplement No. 4* (E/2006/24), chap. I, sect. C, para. 3.

6. The drafts of the International Standard Industrial Classification of All Economic Activities (ISIC), Revision 4, and the Central Product Classification (CPC), Version 2, which were approved by the Statistical Commission at its thirty-seventh session, have been submitted for publication after having gone through an additional technical editing process.

7. The focus of the work will now move to the implementation phase, to ensure that countries can make use of the improved classifications as fast as possible and that classifications providing comparable data around the world are used in major statistical programmes.

B. Overall objective of implementation

8. The efforts to be undertaken to assist countries in the implementation of the revised classifications need to be seen in the context of overall strengthening of statistical capacity and development of coherent and integrated economic statistics programmes. This overall process needs to be coordinated at a high level, engaging not only the national statistical offices (NSOs), but also other statistical data providers and users in the countries.

9. Countries may find it convenient to introduce these new classifications into their source data and national accounts statistics as part of an overall strategy centred on upgrading their national accounts. Therefore, the implementation of ISIC and CPC should strongly be considered in the context of the revision of the System of National Accounts (SNA) and support by implementing organizations should be coordinated within that framework. Care should be taken, however, that the implementation does not become too dependent on the SNA implementation timetable and that other important applications do not get ignored.

10. While implementation of the classifications is an integral part of this overall development process, it is specialized enough to warrant separate training programmes for specialists involved in the development and use of the classifications.

C. Components of work

11. The implementation programme will rely on three main elements for providing assistance to countries: (1) publication of manuals, handbooks and other classifications tools; (2) organization of meetings, training seminars and workshops on classifications; and (3) technical cooperation in individual countries. The development of national classifications, as well as the application of these classifications in statistical programmes will be addressed in these elements.

1. Development of national classifications

12. During the recent revision process of ISIC and CPC, countries have been informed of progress in work and major changes in the respective classification structures through a series of regional workshops. These workshops have also been a major tool for countries to provide input in the revision process. Moreover, these workshops have helped to keep countries up-to-date on the development of ISIC and CPC. The next step in the implementation process will be to build on this existing

understanding of the new ISIC and CPC concepts in developing national classifications.

13. It is proposed to organize the development of national classifications first on a regional basis, followed by specific national assistance, where necessary. The United Nations Statistics Division will take the main responsibility in the first part of the process. Through a series of regional workshops, the Division will focus on:

(a) Introducing the final structure of ISIC and CPC;

(b) Explaining changed concepts that should be carried over into national classifications;

(c) Developing regional adaptations, where applicable; and

(d) Applying rules for the development of national adaptations.

14. This development process will consider the recommendation by the Statistical Commission that countries should make efforts to develop national classifications that allow the aggregation and publication of statistical data at the two-digit level of ISIC without loss of information.

2. Application of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in the national context

15. After successfully completing the adaptation of ISIC and CPC to the national context, the specific application of the revised classifications will require additional support to countries. Key components of this application are set out in paragraphs 16-24 below.

(a) Updating of business registers

16. This includes methodology and practical assistance in updating the industry classification references in the business registers. Some tools will be provided by the United Nations Statistics Division (see paras. 26-30 below), while additional detailed guidance is necessary to address issues such as review and standardization of business activity descriptions, determination of principal activity, profiling, use of product data, establishing of conversion matrices and automatic coding.

17. This training again could be provided through regional workshops as above, but needs to be followed by individual country assistance. Such individual assistance needs to be provided through the activities of regional training institutes, bilateral agreements between countries and through consultants.

18. This assistance does not address the general issue of setting up a business register. For countries that are still facing that problem, additional assistance from other sources is necessary.

(b) Use of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in economic census and economic surveys

19. This will address the actual application of ISIC and CPC in economic statistics as well as issues arising out of the revision of the classifications. Applications of ISIC are rather mainstream, while the application of CPC needs to be further developed. This part of the implementation programme would therefore address specifically the application of CPC for the production of output statistics on production (goods and services) and the use of CPC in price and volume index programmes. Given the fact that an industry classification by design cannot provide detailed information on production output, the use of CPC for such purposes needs to be more strongly advocated.

20. Ideally, this stage of the implementation would also include guidance on backcasting of economic statistics data.

21. The United Nations Statistics Division will explore whether the issues described in paragraphs 13, 16, 19 and 20 above can be handled through a series of single workshops, by region, or whether, owing to the complexity of these issues, a series of second workshops will be needed. The latter would allow an assessment of country experiences (national adaptation), adaptation of business registers and update and application in economic surveys, addressing any difficulties encountered in the first series of regional workshops. For the second series of regional workshops, the priority would be the conduct of combined ISIC/CPC workshops. This does not preclude, however, the organization of separate workshops on ISIC and CPC, based on the differing applications of these classifications.

(c) Use of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in national accounts

22. After using ISIC and CPC in economic statistics programmes, the use of the resulting data in the System of National Accounts will be the next step in the implementation process. Since the application in SNA, such as in I-O tables, is typically an issue of selecting appropriate aggregates of ISIC and CPC categories, it may be best handled within the implementation programme of SNA, for example, in national accounts workshops.

(d) Use of the International Standard Industrial Classification of All Economic Activities in population census and household surveys

23. One important application of the industry classification is its use in population censuses and household surveys. This issue could be addressed in regional workshops on these topics, through special sessions dealing with ISIC. The scope of instructions given here would roughly equal the first points shown in paragraph 13 (a) above, that is, cover the revised concepts of ISIC, the revised final structure, as well as some guidance on coding issues.

(e) Use of the International Standard Industrial Classification of All Economic Activities and the Central Product Classification in administrative and legal processes

24. While ISIC and CPC have been designed primarily as statistical classifications, they are also being used in many countries in other non-statistical contexts, ranging from the use of ISIC by tax authorities to the use of CPC in legal contexts regulating services provision. It is evident that the usefulness of the classifications can be greatly improved by using them in these additional contexts. National statistical offices should consider enhanced dialogue with such partners to improve the acceptance of the classification, also leading to a larger set of administrative data that may become available. It is recognized that this also depends on factors outside of the control of the NSO.

D. Recommended timetable

25. The Commission may wish to consider a recommended timetable for the implementation of ISIC and CPC. Such a timetable could include the following milestones:

(a) Adapting national classifications by 2009;

(b) Adaptation of business registers (where existing) by 2010;

(c) Use of revised ISIC and CPC in statistical programmes starting in 2011;

(d) Use of revised ISIC and CPC in national accounts by 2015;

(e) Use in population census, and so forth, as soon as possible.

E. Supporting documentation and tools

26. A number of supplementary documents to support the understanding of new concepts in ISIC and CPC and to support switching from previous classifications to the newly revised classifications are currently being prepared and will be made available successively in electronic and hard copy formats.

27. Apart from the primary manuals for ISIC, Revision 4, and CPC, Version 2, this documentation includes the ISIC/CPC user's guide, which is currently in preparation.

28. In addition, the United Nations Statistics Division will provide correspondence tables for major classifications relevant to the application of ISIC and CPC, such as to the Harmonized Commodity Description and Coding System (HS), and to SITC as well as to classifications in the SNA, such as the Classification of the Functions of Government (COFOG) and the Classification of Individual Consumption According to Purpose (COICOP).

29. Specific correspondence tables for change from ISIC, Revision 3.1, to ISIC, Revision 4, will be developed, which will serve as primary guidelines for updating the business registers, and so on.

30. The Classifications Hotline and the Classifications website will remain as additional support tools.

F. Institutional arrangements

31. An important aspect of a worldwide implementation programme is to ensure that it is able to reach all countries around the world. The target population for such implementation includes not only national statistical offices, but also central banks and other major data compilers. The conduct of a training and implementation programme requires the participation of partners in all regions. It will not only include international organizations (e.g., United Nations, International Monetary Fund and regional commissions), but will also draw on the support of regional training institutes (e.g., Statistical Institute for Asia and the Pacific) and development banks (e.g., Asian Development Bank, African Development Bank).

32. The United Nations Statistics Division can take on the function of coordination and monitoring of implementation and training efforts and provide active assistance at regional levels. In this context, the Division will organize regional workshops as outlined above. The Division's capacity in providing direct country assistance will be limited, however.

33. International agencies and national statistical offices should collaborate in establishing a network of consultants having the necessary expertise to assist countries in this implementation process.

34. Bilateral support of countries should play a major role in the implementation process, particularly in the later stage of application of the classifications. Positive experiences from countries that have completed this process should be used in bilateral support activities to help other countries at that stage.

35. Within each country, the NSO should take on the lead role in the implementation and training process, that is, advise other offices, ministries, and so forth, on the use of the new national classification.

36. It should be noted that countries planning to use the Statistical Classification of Economic Activities in the European Community (NACE) and the Classification of Products by Activities (CPA) should be covered by the training/implementation programme carried out by the Statistical Office of the European Communities (Eurostat). This will avoid the unnecessary duplication of efforts, since Eurostat will develop the appropriate implementation tools. Coordination between ISIC/CPC and NACE/CPA implementation will still be necessary.

G. Resource requirements

37. As a worldwide process, the implementation of the revised classifications should be considered as a key element in building statistical capacity. In that context, funding, such as that provided by the World Bank, should be explored. This would in particular apply to assistance carried out by consultants.

38. Since bilateral support of countries will be an important factor in the success of this implementation process, the Commission may wish to suggest that NSOs of developed countries commit one staff member each, for two weeks, to assist other countries. This assistance would be helpful for the adaptation of the international standard to national needs and, more importantly, in the stage of application of ISIC and CPC in the statistical programmes.

H. Monitoring

39. A monitoring process should be set up to allow for reporting back to the Statistical Commission on progress in the implementation programme. The Commission may wish to ask the Expert Group on International Economic and Social Classifications to develop the outline of such a monitoring process.

40. This process should also monitor the regional and bilateral assistance programmes to avoid duplication and overlap of programmes between bilateral and multilateral donors.

I. Points for discussion

41. **The Commission may wish to endorse the following actions:**

(a) **That the Commission agrees with the overall approach to the implementation process and the proposed timetable;**

(b) **That the Commission agrees with the establishment of a formal monitoring mechanism for the implementation process.**